

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 EA-06 NEA-09 IO-10 ISO-00 AEC-05

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R 051315Z FEB 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2167

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY AMMAN

USINT BAGHDAD

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY PARIS

AMEMBASSY RABAT

AMEMBASSY SANAA

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

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C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 0612

E.O. 11652: GDS

TAGS: EGEN, ENRG, EFIN, EAID, EINV, PFOR, KU

SUBJECT: KUWAIT'S ECONOMIC POLICIES - CAN THEY BE INFLUENCED?

REF: A) KUWAIT 0546 B) KUWAIT 0561

SUMMARY: THE FOLLOWING IS THIRD IN A SERIES OF TELEGRAMS ON THE LIKELY FUTURE DIRECTION OF US/KUWAITI RELATIONS AND DESCRIBING THE FACTORS THAT WILL INFLUENCE THEM. THE ECONOMIC ASPECTS OF OUR OVERALL RELATIONS WITH KUWAIT ARE OF SPECIAL IMPORTANCE TO THE US. KUWAIT'S POLICIES ON OIL PRODUCTION, INVESTMENT AND INTERNATIONAL MONETARY COOPERATION ARE DISCUSSED. CLOSER CONSULTATION WITH THE GOK ON THESE SUBJECTS PRIOR TO A PRODUCER/CONSUMER CONFERENCE IS RECOMMENDED

SUCH AN EFFORT COULD MOVE THE GOK AWAY FROM THE INDEPENDENT AND GENERALLY UNHELPFUL POLICIES IT HAS FOLLOWED IN THE PAST. MORE DETAIL WILL BE PROVIDED IN OUR FORTHCOMING ANNUAL ASSESSMENT. END SUMMARY.

1. THREE ECONOMIC FACTS GIVE KUWAIT A SPECIAL IMPORTANCE TO THE UNITED

STATES. IT HAS PROBABLY THE WORLD'S SECOND LARGEST PROVEN OIL RESERVES

AND, HENCE, WILL REMAIN A PRODUCER MUCH LONGER THAN MOST OPEC COUNTRIES.

IT IS THE SECOND LARGEST ARAB HOLDER OF FINANCIAL RESERVES, AND IN FINANCE THE KUWAITIS HAVE PROVEN TO BE INNOVATORS WHOSE APPROACHES AND IDEAS INCREASINGLY ARE EMULATED ELSEWHERE. IT IS AN IMPORTANT CONTRIBUTOR TO THE US BALANCE OF PAYMENTS.

2. KUWAIT POLICIES ON OIL PRICING AND PRODUCTION ARE OF IMMEDIATE CONCERN TO THE US. IN THE EMBASSY'S JUDGMENT, KUWAIT WILL NOT VOLUNTARILY REDUCE OIL PRICES EXCEPT IN THE CONTEXT OF SOME BROADER PRODUCER/CONSUMER AGREEMENT. IT HAS NO CURRENT NEED FOR ALL OF THE VAST REVENUES PRESENTLY BEING GENERATED AND NO COMPELLING REASON TO SUSTAIN HIGH LEVELS OF PRODUCTION. IN THE MEDIUM TERM KUWAITI PRICES COULD BE DRIVEN DOWN BY PRICE WARS GENERATED BY THE EXISTENCE OF A SUBSTANTIAL SPARE CAPACITY IN OTHER PRODUCING COUNTRIES OR THE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES BY

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MAJOR CONSUMERS. HOWEVER, UNLESS AND UNTIL THIS HAPPENS THE GOK CAN BE EXPECTED, UNDER EXISTING CIRCUMSTANCES, TO BE IN THE FOREFRONT OF THOSE OPEC MEMBERS WHO WILL FAVOR THE CARTEL TAKING EXTREME MEASURES, INCLUDING PRO-RATIONING IF NECESSARY, TO MAINTAIN PRICES.

3. THE GOK ALSO CAN BE EXPECTED TO SUPPORT IRANIAN PROPOSALS FOR INDEXING. POTENTIALLY, BECAUSE OF ITS ENORMOUS RESERVES THE MOST INTERESTING CONSUMER PROPOSAL ADVANCED SO FAR FROM A GOK STANDPOINT

IS THE SUGGESTION THAT OPEC PRICES BE LOWERED (BUT NOT DRAMATICALLY) IN EXCHANGE FOR A LONG-TERM CONSUMER GUARANTEE OF A PRICE FLOOR. HOWEVER, THE GOK WILL CONTINUE TO INSIST ON SOME FORM OF INDEXING AND WILL NOT ENTERTAIN THE NOTION THAT A GUARANTEED PRICE BE CONDITIONED

ON PROMISES NOT TO EMBARGO OIL. SHORT OF SATISFACTORY RESOLUTION OF THE ARAB/ISRAELI DISPUT, WE SEE NO WAY TO GET THE GOK, OR OTHER ARAB PRODUCERS, TO AGREE TO A NON-EMBARGO PLEDGE. IF WE PRESS THIS ISSUE NOW, RESULTS ARE LIKELY TO BE COUNTER-PRODUCTIVE. THE EMBASSY URGES THIS PROPOSAL BE SHELVED, AT LEAST TEMPORARILY, IN FAVOR OF A BROADER PRODUCER/CONSUMER EFFORT TOWARDS REACHING AGREEMENT ON THE "LONG-TERM CONTRACT" CONCEPT.

4. US AND OTHER INTERNATIONAL OIL COMPANIES IN KUWAIT HAVE LOST ALL FORMER CONTROL OF OPERATIONS AND SEEM RECONCILED TO A CONTRACTOR ROLE, HOPEFULLY WITH SOME SMALL PRICE AND ACCESS TO OIL BENEFITS ABOVE THOSE OFFERED TO OUTSIDE BUYERS. THE GOK IS COMPLETELY IN THE DRIVER'S SEAT AND HAS PROMISED TO "ANNOUNCE" THE FUTURE RELATIONSHIP OF THE COMPANIES TO KUWAIT BY MID-1975. THE COMPANIES COULD BE PERMITTED TO RETAIN SOME NOMINAL OWNERSHIP PROVIDED THEY GUARANTEE TO CONTINUE MARKETING KUWAITI OIL. ON THE OTHER HAND, THE GOK, UNDER PRESSURE FROM THE KUWAIT NATIONAL ASSEMBLY, MAY OPT FOR THE SAG/ARAMCO FORMULA FOR TOTAL OWNERSHIP.

5. OF MORE PRACTICAL INTEREST IS HOW THE GOK WILL MARKET ITS OIL IN THE FUTURE. WE SUSPECT FULF AND BP, WHO DEVELOPED KUWAIT'S MAJOR FIELDS, WILL CONTINUE TO BE THE MAJOR PURCHASERS AND PROBABLY WILL BE GIVEN SOME SMALL INCENTIVE FOR CONTINUED AGGRESSIVE MARKETING AND FIELD MANAGEMENT. SHELL ALREADY HAS NEGOTIATED DIRECT PURCHASE FROM THE GOK OF 400,000 BPD AND, EVENTUALLY, MAY SEEK MORE. BRAZILIAN, JAPANESE AND CHINESE (TAIWAN) COMPANIES ALSO HAVE NEGOTIATED DIRECT PURCHASES AND EXXON IS VERY CLOSE TO DOING SO. OTHERS WILL FOLLOW SUIT SINCE THEY KNOW KUWAIT HAS THE CAPABILITY TO SUPPLY

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THEM LONG AFTER MOST OTHER OPEC COUNTRIES RUN DRY.

6. KUWAIT'S ENTRY INTO PETROLEUM-RELATED REFINING, MANUFACTURING AND TRANSPORTATION WILL POSE THE SAME PROBLEMS AND OFFER THE SAME OPPORTUNITIES FOR THE US AS SIMILAR ACTIVITIES IN OTHER PRODUCING COUNTRIES. LIKE THE SHAH, THE KUWAITIS (AND MANY ASSOCIATED US COMPANIES) REALLY BELIEVE OIL IS TOO VALUABLE COMMODITY TO BURN AND THAT THERE ALWAYS WILL BE A MARKET FOR ITS PRODUCTS. OUR COMPANIES WILL HELP THE GOK ASSURE THE SUCCESS OF THESE PROJECTS. WE FIND IT PARTICULARLY IRONIC THAT US COMPANIES ARE JOINING WITH THE GOK AND LOCAL INVESTORS IN OIL TRANSPORT SCHEMES WHICH THREATEN TO UNDERMINE US EFFORTS TO AVOID THE WORLD MOVING TOWARDS CARGO PREFERENCES. THEY RECOGNIZE THAT KUWAIT WILL BE ABLE TO DICTATE WHO CAN SHIP ITS OIL AND WANT TO BE IN ON THE GROUND FLOOR.

7. IN THE EMBASSY'S JUDGMENT, OVER THE NEXT FEW YEARS WE MUST
REALISTICALLY EXPECT THE GOK TO REMAIN A TOUGH BARGAINER ON OIL
ISSUES. THEY KNOW THE RULES OF SUPPLY AND DEMAND AND PRICING.
THEY WILL REACH ACCOMMODATION WITH CONSUMERS ON LESS
FAVORABLE TERMS WHEN THE TIME IS RIGHT. IN THE MEANTIME, THEY WILL
DRIVE A HARD BARGAIN. WE SEE REAL LITTLE SHORT OR LONG-TERM

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INFO OCT-01 AF-06 EUR-12 EA-06 NEA-09 IO-10 ISO-00 AEC-05

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FRB-03 PA-01 PRS-01 USIA-06 XMB-02 /124 W

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R 051315Z FEB 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2168

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY AMMAN

USINT BAGHDAD

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY PARIS

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ADVANTAGE IN ATTEMPTING TO ISOLATE KUWAIT OR CONTINUING TO BRAND IT THE "BAD BOY" IN MIDDLE EAST OIL MATTERS. WE WOULD BE MUCH BETTER ADVISED TO SIT DOWN AND DISCUSS WITH THEM IN COMMERCIAL TERMS OUR COMMON INTERESTS. THEY DO NOT BELIEVE AND WILL NOT ACCEPT THE NOTION THAT THEIR OIL PRICES ARE THE ROOT CAUSE OF THE WORLD'S PROBLEMS. THEY ALSO WILL NOT BE BLUDGEONED, AND OUR POLICIES TOWARDS AND RELATIONS WITH THE GOK ON OIL MATTERS SHOULD BE PREDICATED ON THIS FACT.

8. ON INVESTMENT AND MONETARY MATTERS KUWAIT WILL GIVE (IT CURRENTLY IS ONE OF THE WORLD'S LARGEST AID DONORS) AND WILL COOPERATE (IN THE IMF AND ELSEWHERE). VISITS LAST YEAR BY TRASURY SECRETARY SIMON AND EXIMBANK CHAIRMAN CASEY SET IN TRAIN A MORE OPEN DIALOGUE ON THESE ISSUES. WITH CURRENT ANNUAL GOVERNMENT INCOME OF \$8-\$10 BILLION AND DOMESTIC EXPENDITURES UNLIKELY TO EXCEED \$3-4 BILLION ANNUALLY IT IS IN OUR INTEREST TO KEEP THIS DIALOGUE GOING AND TO DO WHAT WE CAN TO INFLUENCE THE DIRECTION OF KUWAITI FUNDS IN WAYS THAT CAN SERVE OUR INTEREST. THE GOK AND KUWAITI PRIVATE SECTOR SO FAR HAVE RESPONDED WELL. WHILE SPECIFIC NUMBERS ARE NOT AVAILABLE, WE ESTIMATE THAT KUWAIT HAS CONTRIBUTED ON RHE ORFER OF \$4 BILLION TO THE US BALANCE OF PAYMENTS OVER THE PAST FIVE YEARS. THE EMBASSY DOES NOT RECOMMEND AND THE GOK DOES NOT DESIRE THE ESTABLISHMENT OF BILATERAL COMMISSION OR OTHER BUREAUCRATIC ORGANIZATIONS TO FACILITATE EXCHANGE. THE GOK KNOWS WHAT KINDS OF SERVICES IT WANTS TO BUY FROM THE US, WHETHER FROM OFFICIAL AGENCIES (AID, FAA AND BPR) OR THEPRIVATE SECTOR (PETROLEUM AND INDUSTRIAL TECHNOLOGY). WE SHOULD DO EVERHTHING POSSIBLE TO FACILITIATE THESE PURCHASES, IF THEY APPEAR IN THE US INTEREST.

9. KUWAIT ALSO IS PREPARED TO COOPERATE WITH THE USG IN INVESTMENT IN THIRD COUNTRIES AND IN THE US ITSELF. LIKE TECHNICAL ASSISTANCE, THIS IS A GROWTH AREA. PROJECTS MAY TAKE SOME TIME TO GET GOING, HINDERED MAINLY BY THE LACK OF AN ADEQUATE NUMBER OF KUWAITI PERSONNEL TO ASSESS THEM, BUT THE INTEREST AND MONEY IS THERE. PROVIDED WE HAVE SOMETHING TO SAY (SPECIFICS ARE WHAT ARE NEEDED NOW)

,
THE EMBASSY RECOMMENDS THAT OCCASIONAL HIGH-LEVEL VISITS BY SENIOR USG FINANCIAL, MONETARY AND INVESTMENT OFFICIALS BE CONTINUED. IT WOULD BE PARTICULARLY HELPFUL, ONCE US POLICIES ARE
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DEFINED, FOR A SENIOR OFFICIAL TO COME TO KUWAIT TO SPELL OUT THE RULES AND TO PROVIDE SPECIFIC ASSURANCES THAT KUWAITI INVESTMENT IN THE US IS WELCOME. IN DEVELOPING PROPOSALS, WE SHOULD REMAIN COGNIZANT OF KUWAITI DESIRES TO OBTAIN AN EQUITY POSITION IN WIDELY DISPERSED AREAS AND INDUSTRIES AND TO OBTAIN MAXIMUM TECHNOLOGICAL BENEFIT FROM COOPERATIVE EFFORTS. DESPITE SAUDI ARABIA AND IRAN'S DOMINANT ROLES IN THE AREA, KUWAIT IS ECONOMICALLY IMPORTANT TO THE US. KUWAITI ATTITUDES, AND INSTITUTIONAL DEVELOPMENT POLICIES, ESPECIALLY IN INVESTMENT, FINANCIAL AND MONETARY AREAS, ARE OF SIGNIFICANT INFLUENCE ON OTHER COUNTRIES IN THE REGION, PARTICULARLY THE SMALLER GULF STATES. FOR THIS REASON ALONE, THEY MERIT PARTICULAR AND CONTINUED USG ATTENTION.

10. ON THE MORE DIFFICULT QUESTIONS OF GLOBAL ENERGY AND MONETARY PROBLEMS, WE JUDGE THERE WILL HAVE TO BE MORE DISCUSSION AND CONSULTATION (EVEN IT ONLY IN WRITING) BY SENIOR USG OFFICIALS TO MOVE THE GOK AWAY FROM THE INDEPENDENT AND GENERALLY UNHELPFUL POLICIES IT HAS FOLLOWED IN THE PAST. THE KUWAITIS RESENT BEING TOLD HOW TO SPEND THEIR MONEY OR AT WHAT RATE TO PRODUCE AND AT WHAT PRICE THEY SHOULD SELL THEIR OIL. GOK OIL AND FINANCIAL POLICIES HAVE BEEN AND WILL BE MADE ON THE BASIS OF WHAT KUWAITIS THEMSELVES BELIEVE TO BE THEIR OWN LONG-TERM INTERESTS. IF PRESSED OR THREATENED, THEY ARE PERFECTLY CAPABLE AND WILLING CUT OIL PRODUCTION TO MAINTAIN PRICES NEAR CURRENT LEVELS.

11. NEVERTHELESS, THEY ALSO REMAIN GENUINELY INTERESTED IN OUR VIEWS AND ARE PREPARED TO CONSIDER INITIATIVES WE MAY PROPOSE, PREFERABLY BEFORE A MORE GENERAL PRODUCER/CONSUMER MEETING. OUR EFFORT WITH THE KUWAITIS SHOULD BE CENTERED ON ADEQUATELY EXPLAINING THE SOUNDNESS OF OUR PROPOSALS AND CONVINCING THEM IT IS IN THEIR INTEREST TO SUPPORT THEM. THEY WANT TO BE TREATED, IF NOT AS FULL EQUALS, AT LEAST AS PARTNERS IN DELIBERATING INTERNATIONAL ENERGY, MONETARY AND OTHER GLOBAL ECONOMIC QUESTIONS. IF WE CHOOSE TO IGNORE THEM AND PRESENT THEM WITH DECISIONS MADE BY OTHERS ON A "TAKE IT OR LEAVE IT" BASIS, WE WILL LOSE OPPORTUNITIES TO GAIN THEIR AGREEMENT ON IMPORTANT ISSUES.
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